REPORT OF EXAMINATION
OF THE

NATIONAL AMERICAN INSURANCE
COMPANY OF CALIFORNIA

AS OF
DECEMBER 31, 2008

Participating State
and Zone:

California

Filed January 26, 2010

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Los Angeles, California
October 15, 2009

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable Morris Chavez
Secretary, Zone IV-Western
Superintendent of Insurance
New Mexico Insurance Division
Santa Fe, New Mexico

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman, Secretary, and Commissioner:

Pursuant to your instructions, an examination was made of the

NATIONAL AMERICAN INSURANCE COMPANY OF CALIFORNIA

(hereinafter also referred to as the Company) at the primary location of its books and records, 444 West Ocean Boulevard, Long Beach, California 90802.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2008. The examination was made pursuant to the National Association of Insurance Commissioners' plan of examination. The examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions within the examination period, and an evaluation of the assets and a determination of liabilities as of December 31, 2008, as deemed necessary under the circumstances.

This examination was conducted concurrently with the examination of the Company's wholly-owned subsidiaries, Danielson National Insurance Company and Danielson Insurance Company.

In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; accounts and records; and sales and advertising.

SUBSEQUENT EVENTS

On October 13, 2009, the Company submitted a California Insurance Code Section 1011(c) filing to the California Department of Insurance (CDI) proposing the merger of its wholly-owned subsidiary, Danielson Insurance Company (DICO), into the Company with an effective date of December 31, 2009. As of the date of this examination report, the transaction has not yet been approved by the CDI.

COMPANY HISTORY

The Company was incorporated in the State of California on October 10, 1966. All outstanding shares of the Company are owned by its parent, Danielson Indemnity Company (DIND), a Missouri holding company. The ultimate controlling parent, Covanta Holding Corporation, is a publicly traded company on the New York Stock Exchange whose main business strategies and measured performance predominantly reflects its performance of waste to energy operations.

On July 13, 2006, a new holding company, Covanta Insurance Holdings Corporation (CIHC), was formed for the purpose of establishing a management equity award program. Under the award program, Covanta Holdings Corporation may distribute up to 20 percent of its common shares in

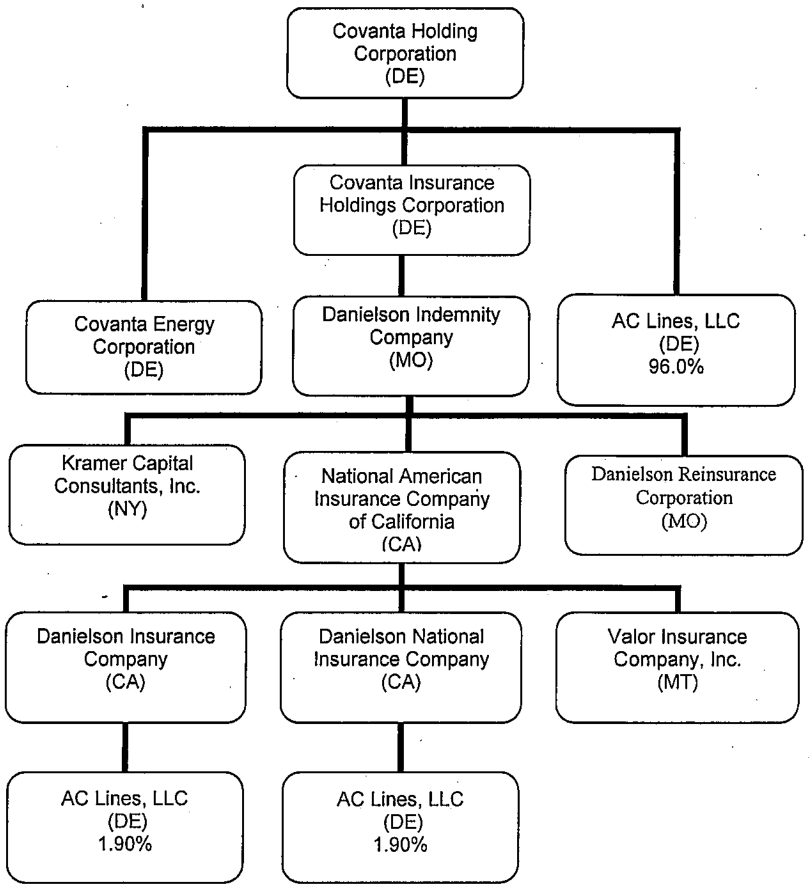
CIHC to key members of management in the form of restricted stock awards and incentive stock options. CIHC wholly owns the capital stock of DIND. This transaction was approved by the California Department of Insurance on December 13, 2006

In 2005, the Company wrote off its investment in its wholly-owned subsidiary, Valor Insurance Company (Valor), due to the subsidiary's financial condition. In May 2009, Valor, a Montana Company, was liquidated and the liquidation had no material financial affect on the Company.

In December 2008, the ultimate parent, Covanta Holding Corporation contributed $3 million to the Company as a result of reserve adjustments recorded by the Company during 2008 relating to adverse workers' compensation reserve development.

MANAGEMENT AND CONTROL

The following abridged organizational chart, which is limited to the Company's parent along with its subsidiary insurance companies, depicts the Company's relationship within the holding company system:



(All ownership is 100%, except as otherwise noted)

Management of the Company is vested in a three-member board of directors elected annually. A listing of the members of the board and principal officers serving on December 31, 2008 follows:

Directors

Name and Residence	Principal Business Affiliation
Anthony J. Orlando New Providence, New Jersey	Chief Executive Officer Covanta Holding Corporation
Jon M. Schneider Signal Hill, California	President and Chief Financial Officer National American Insurance Company of California
Timothy J. Simpson Morristown, New Jersey	Executive Vice President & General Counsel Covanta Holding Corporation

Principal Officers

Name	Title
Jon M. Schneider	President and Chief Financial Officer
Kevin M. Grant	Vice President – Automobile Claims
Vahe Khachaturian	Vice President – Information Systems
Regan James	Executive Vice President–Surety Underwriting
Steven R. Kay	Executive Vice President–Surety
Donald G. Hein	Assistant Vice President, Controller and Secretary

Management Agreements

Amended and Restated Executive, Professional, Administrative and Loss Adjustment Services Agreement: The Company, and its subsidiaries, Danielson National Insurance Company (DNIC), Danielson Insurance Company (DICO) and Valor Insurance Company, Inc. are parties to an amended and restated administrative services agreement, with an effective date of January 1, 2006. Under the agreement, the Company provides the following services to its subsidiaries: executive, information system support, financial, accounting, marketing, underwriting, human resources, legal, office, allocated and unallocated loss adjustment expenses, and other administrative services. This services agreement was amended to coincide with the changes to the inter-company pooling and reinsurance agreement, also effective on January 1, 2006, as some of the allocations employ the pooling participation as a basis of allocating reimbursement costs. This agreement was approved by the California Department of Insurance (CDI) on March 8, 2006. During the three year examination period, the Company received the following reimbursement from its subsidiaries:

Subsidiary	2006	2007	2008	Total
DNIC	$1,933,535	$2,404,360	$2,007,271	$6,345,166
DICO	1,642,547	1,905,115	1,592,970	5,140,632

Credit Agreement: In December 2007, the Company entered into a $3 million credit agreement with its subsidiary, Danielson Insurance Company (DICO). The purpose of the agreement was to provide the Company with a source of liquidity at terms more favorable than could be otherwise obtained through commercial means, and in addition DICO would earn interest at yields in excess of its typical bond portfolio. During 2008, the Company borrowed $3 million and repaid $500,000 to DICO, resulting in a 2008 year-end accrued balance, including interest of $2,659,200. The full repayment of the outstanding balance is due December 31, 2009. The CDI approved this credit agreement in December 2007.

Consolidated Tax Allocation Agreement: The Company, its affiliates, and its ultimate parent, Covanta Holding Corporation (CHC) file a consolidated federal income tax return. Due to net operating losses during the examination period, the Company did not pay any federal income taxes, and its net operating losses are utilized in the consolidated federal income tax return of its ultimate parent, CHC.

As noted in the prior examination report, the Company submitted its consolidated federal income tax agreement to the CDI for review during the prior examination period. However, approval of the agreement was postponed as a result of the organization's intention to merge DICO into the Company, a transaction which would have required the submission of an updated consolidated income tax agreement to the CDI. Since the anticipated merger is now scheduled to take place on December 31, 2009, it is recommended that the Company submit an updated consolidated tax allocation agreement to the CDI for approval, pursuant to California Insurance Code Section 1215.5(b)(4).

TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company was licensed to transact multiple lines of property and casualty insurance in the following states:

Arizona	Kansas	South Dakota
California	Missouri	Texas
Florida	Montana	Utah
Hawaii	Nebraska	Washington
Idaho	Nevada	Wisconsin
Indiana	Oregon	

During the examination period, the principal lines of business written were non-standard automobile for personal risks and various classes of surety. In 2008, the Company wrote direct premiums of $4,743,199 in the following four states:

State	Direct Premium Written	Percentage of Total
California	$ 4,678,189	99.0%
Florida	61,010	.9 %
Nevada	2,000	.05%
Oregon	2,000	.05%

The Company has written non-standard personal automobile insurance in California through its unaffiliated agency, SCJ Insurance Services, Inc. (SCJ) since 1993. SCJ performs marketing, underwriting and policy administration on behalf of the Company from its headquarters in Pleasanton, California.

In 2007, the Company commenced writing specialty contract surety and commercial surety, primarily in California, and in July 2007, entered into a program manager arrangement with American Safety Casualty Insurance Company (ASCIC). Under the arrangement with ASCIC, the Company is responsible for marketing to independent agents and brokers, underwriting, bond administration and claims handling for specialty surety business produced on behalf of ASCIC, and assumes a majority of the business from ASCIC via a quota share reinsurance arrangement.

In April 2008, the Company's subsidiary, DNIC, commenced writing bail bond contracts in California and Idaho through a managing general agent, Two Jinn, Inc. (Two Jinn). Two Jinn produces business exclusively through its employee bail agents and performs underwriting, claims and ancillary bail operations at its headquarters in Carlsbad, California. The Company assumes this business through its inter-company pooling and reinsurance agreement.

Prior to the current examination period, the Company exited the following lines of business: commercial package liability in 1995, workers' compensation in 2001, and commercial automobile in 2004. The discontinuation of these lines of insurance has resulted in the decrease of the Company's direct premiums written from $49 million in 2002 to $4.7 million in 2008.

LOSS EXPERIENCE

A review of the Company's loss experience data during the examination period disclosed a historical trend of net underwriting losses and net losses as follows:

Year	Net Underwriting (Loss)	Net Income or (Loss)	Company Surplus
2006	$ (219,598)	$ 671,871	$ 18,428,878
2007	(1,841,017)	(1,661,866)	14,830,193
2008	(2,429,992)	(2,408,541)	15,438,693
2009(*)	(673,388)	(499,337)	14,385,531

(*) Through June 30, 2009

Prior examination reports noted that the Company has exited nonprofitable lines in an effort to reverse the trend of losses. However, overall loss and loss adjustment reserves have continued to be deficient mainly due to adverse workers' compensation experience. The ultimate parent, Covanta Holding Corporation, contributed $3 million to the Company in December 2008, as a result of adverse workers' compensation reserve development.

REINSURANCE

Inter-company Pooling Agreement

The Company and its subsidiaries, Danielson Insurance Company (DICO) and Danielson National Insurance Company (DNIC), participate in an Inter-company Pooling and Reinsurance Agreement. Under the terms of the agreement, all business, net of non-affiliated reinsurance, is combined. DICO and DNIC each had a 10% participation interest in the pool with the Company retaining the remaining 80% interest. Effective January 1, 2006, the participation of the pool was modified with the Company retaining 10%, DNIC 50% and DICO 40%.

Assumed

In addition to the Company's participation in the above referenced Inter-company Pooling Agreement, the following schedule summarizes its assumed reinsurance in-force as of December 31, 2008:

Type of Contract and Lines of Business	**Name of Reinsured**	**Reinsured's Retention**	**Company's Maximum Limits of Liability**
Quota Share Surety Bond	American Safety Casualty Insurance Company (ASCIC)	40% of Net Liability	60% of Net Liability – NAICC

Since July 15, 2007, the Company has been a party to a surety bond quota share reinsurance agreement with American Safety Casualty Insurance Company (ASCIC). Assumed reinsurance premiums totaled $363,000 and $2.4 million for 2007 and 2008, respectively. Under the terms of this agreement, the Company's reinsurance payable as of December 31, 2008 only amounted to $9,000. As of December 31, 2008, the Company reported an asset, "Funds held or deposited with reinsured companies," in the amount of $1.9 million, which serves as the secured obligation requirement under this assumption reinsurance agreement.

Ceded

The Company did not have any ceded reinsurance contracts in-force during the examination period.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2008

Underwriting and Investment Exhibit for the Year Ended December 31, 2008

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2008

Statement of Financial Condition
as of December 31, 2008

Assets	Ledger and Nonledger Assets	Assets Not Admitted	Net Admitted Assets	Notes
Bonds	$ 14,637,567	$	$ 14,637,567	
Common stocks	14,383,805		14,383,805	
Cash and short-term investments	6,696,556		6,696,556	
Investment income due and accrued	166,985	-	166,985	
Premiums and agents' balances in course of collection	591,141	3,500	587,641	
Reinsurance:				
Amounts recoverable from reinsurers	631,268		631,268	
Funds held by or deposited with reinsured companies	2,361,682		2,361,682	
Other amounts receivable under reinsurance contracts	56,290		56,290	
Net deferred tax asset	15,466,130	15,222,783	223,347	
Electronic data processing equipment	21,812	7,212	14,600	
Furniture and equipment, including health care assets	20,591	20,591		
Aggregate write-ins for other than invested assets	233,416	233,416		
Total assets	$ 55,247,243	$ 15,487,502	$ 39,759,741	

Liabilities, Surplus and Other Funds

Losses		$ 11,099,363	(1)
Reinsurance payable on paid loss and loss adjustment expenses		9,294	
Loss adjustment expenses		2,901,253	(1)
Commissions payable, contingent commissions and other similar charges		4,679	
Other expenses		1,641,776	
Taxes, licenses, and fees		(27,194)	
Unearned premiums		158,708	
Funds held by company under reinsurance treaties		1,293,506	
Amounts withheld or retained by company for account of others		3,607,347	
Provision for reinsurance		543,611	
Payable to parent, subsidiaries and affiliates		2,659,200	
Aggregate write-ins for liabilities		429,505	
Total liabilities		24,321,048	
Common capital stock	$ 2,600,000		
Gross paid-in and contributed surplus	53,149,001		
Unassigned funds (surplus)	(40,310,308)		
Surplus as regards policyholders		15,438,693	
Total liabilities, surplus and other funds		$ 39,759,741	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2008

Statement of Income

Underwriting Income		
Premiums earned		$ 1,220,602
Deductions:		
Losses incurred	$ 2,141,635	
Loss expense incurred	461,058	
Other underwriting expenses incurred	1,047,901	
Total underwriting deductions		3,650,594
Net underwriting loss		(2,429,992)
Investment Income		
Net investment income earned	$ 331,794	
Net realized capital losses	(84,093)	
Net investment gain		247,701
Other Income		
Finance and service charges not included in premiums	$ 770,763	
Aggregate write-ins for miscellaneous income	(997,013)	
Total other income		(226,250)
Net loss		$ (2,408,541)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2007		$ 14,830,193
Net loss	$ (2,408,541)	
Change in net unrealized foreign exchange capital loss	(383,935)	
Change in net deferred income tax	829,962	
Change in nonadmitted assets	(830,418)	
Change in provision for reinsurance	804,200	
Surplus adjustments: Paid-in	3,000,000	
Aggregate write-ins for gains and losses in surplus	(402,768)	
Change in surplus as regards policyholders		608,500
Surplus as regards policyholders, December 31, 2008		$ 15,438,693

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2008

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2005, per Examination			$ 17,341,675
Net loss	$	$ 3,398,536	
Change in net unrealized capital losses		1,761,483	
Change in net deferred income taxes	1,199,009		
Change in nonadmitted assets		1,522,893	
Change in provision for reinsurance	680,064		
Surplus adjustments: Paid-in	3,000,000		
Aggregate write-ins for losses in surplus		99,143	
Totals	$ 4,879,073	$ 6,782,055	
Net decrease in surplus as regards policyholders			1,902,982)
Surplus as regards policyholders, December 31, 2008, per Examination			$ 15,438,693

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

The Company's loss and loss adjustment expense reserves were reviewed by a Casualty Actuary from the California Department of Insurance (CDI). Based on the analysis, the loss and loss adjustment expense reserves as of December 31, 2008 for all companies participating in the inter-company pooling and reinsurance agreement were determined to be deficient by $2.6 million. The reserve deficiency is primarily related to the Company's adverse workers' compensation experience. The Company's share of the reserve deficiency totals $2.2 million, and the reserve deficiency amounts for its wholly owned subsidiaries, Danielson National Insurance Company (DNIC) and Danielson Insurance Company (DICO) total $186,000 and $227,000, respectively.

The Company strengthened its reserves in the first two quarters of 2009 as a result of its own reported adverse development, and made an additional increase to reserves in the third quarter of 2009 based on the Company's and CDI's analysis. These subsequent additions to the reserves, recorded in the first three quarters of 2009, totaled $2.9 million.

Based on the Company's subsequent period remedial action, the CDI did not make any financial statement adjustments to the Company's loss reserves or loss adjustment expense reserves as of December 31, 2008.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Management and Control – Consolidated Federal Income Tax Agreement (Page 6): Although the Company did not pay any federal income taxes during the examination period, it is recommended that the Company have a consolidated tax allocation agreement, approved by the California Department of Insurance, pursuant to California Insurance Code Section 1215.5(b)(4).

Previous Report of Examination

Subsequent Events (Page 2): On July 6, 2006, Danielson Indemnity Company submitted preliminary comments to the CDI concerning the proposed merger of Danielson Insurance Company into the Company. As of the current date, this proposed merger has not taken place.

Subsequent Events (Page 2): On July 13, 2006, the organization formed a new holding company, Covanta Insurance Holdings Corporation, which fully owns the capital stock of Danielson Indemnity Company. CIHC was formed to establish a management equity award program. This transaction was approved by the California Department Insurance on December 13, 2006.

Reinsurance – Ceded (Page 8): A reinsurance agreement with Transatlantic Reinsurance Company should not have been accounted for as reinsurance, as the agreement did not meet the requirements of SSAP No. 62. The accounting for this agreement was not an issue during the current examination period, as it was cancelled, on a cut-off basis, on January 1, 2006.

Bonds (Page 13): As of year-end 2005, two bonds exceeded the limitations prescribed by California Insurance Code (CIC) Section 1197. A review of the bonds during the current examination period noted that the deficiency was corrected, as there were no current exceptions related to CIC Section 1197.

ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Company's officers and employees during the course of this examination are hereby acknowledged.

Respectfully submitted,

/S/

Edward W. Aros, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California